

AVI BIOPHARMA INC
Form DEF 14A
April 14, 2009

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[TABLE OF CONTENTS](#)

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

AVI BIOPHARMA, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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 - (1) Title of each class of securities to which transaction applies:
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April 14, 2009

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of the Shareholders of AVI BioPharma, Inc., which will be held on Tuesday, May 19, 2009, at 9:00 am, local time, at the office of AVI BioPharma, Inc., 4575 SW Research Way, Corvallis, Oregon.

Details of the business to be conducted at the Annual Meeting are given in the attached Proxy Statement. The Company's Annual Report on Form 10-K for the year ended December 31, 2008 is also enclosed.

Whether or not you plan to attend the meeting, it is important that your shares be represented and voted at the meeting. Therefore, I urge you to sign, date, and promptly return the enclosed proxy in the enclosed postage-paid envelope. If you decide to attend the Annual Meeting and vote in person, you will, of course, have that opportunity. If you receive more than one proxy card because your shares are registered in different names or at different addresses, please sign and return each such proxy so that all of your shares will be represented at the Annual Meeting.

On behalf of the Board of Directors, I would like to express our appreciation for your support of the Company.

Sincerely,

Leslie Hudson, Ph.D.

President and Chief Executive Officer

Table of Contents

AVI BIOPHARMA, INC.

NOTICE OF ANNUAL MEETING To Be Held on May 19, 2009

To the Shareholders of AVI BioPharma, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of the shareholders of AVI BioPharma, Inc. (the "Company" or "AVI") will be held on May 19, 2009 at 9:00 a.m. local time, at the offices of AVI BioPharma, Inc., 4575 SW Research Way, Corvallis, Oregon, for the following purposes:

1. To consider and vote upon a proposal to elect four (4) Group II Directors, each for a two-year term;
2. To consider and vote upon a proposal to ratify the appointment of KPMG LLP as independent registered public accounting firm for the Company for the year ending December 31, 2009; and
3. To transact such other business as may properly come before the meeting.

The Board of Directors has fixed March 24, 2009 as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting. Only shareholders of record at the close of business on that date will be entitled to notice of and to vote at the Annual Meeting or any adjournments thereof.

**By Order of the Board of
Directors**

Leslie Hudson, Ph.D.
*President and Chief Executive
Officer*

Corvallis, Oregon
April 14, 2009

Table of Contents

TABLE OF CONTENTS

Item	Page
<u>General</u>	<u>1</u>
<u>Solicitation, Voting and Revocability of Proxies</u>	<u>1</u>
<u>AVI BIOPHARMA, INC. DIRECTORS AND EXECUTIVE OFFICERS</u>	<u>2</u>
<u>Executive Officers and Directors</u>	<u>2</u>
<u>Board of Directors Meetings and Committees</u>	<u>6</u>
<u>Code of Business Conduct and Ethics</u>	<u>7</u>
<u>Communications to the Board of Directors</u>	<u>7</u>
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	<u>7</u>
<u>Compensation Committee Interlocks and Insider Participation in Compensation</u>	
<u>Decisions</u>	<u>7</u>
<u>Executive Compensation</u>	<u>8</u>
<u>Compensation Discussion and Analysis</u>	<u>8</u>
<u>Introduction</u>	<u>8</u>
<u>Significant Management Changes in Fiscal Year 2008 and Early 2009</u>	<u>9</u>
<u>The Compensation Committee</u>	<u>10</u>
<u>Compensation Philosophy and Objectives</u>	<u>10</u>
<u>Role of Executive Officers in Compensation Decisions</u>	<u>11</u>
<u>Use of Compensation Consultants and Reports</u>	<u>11</u>
<u>Tax and Accounting Implications of the Executive Compensation Program</u>	<u>18</u>
<u>Repricing of Stock Options</u>	<u>18</u>
<u>Employment Agreements with Named Executive Officers</u>	<u>18</u>
<u>Post-Employment Benefits and Change in Control Arrangements</u>	<u>22</u>
<u>Compensation Committee Report</u>	<u>25</u>
<u>Summary Compensation Table</u>	<u>26</u>
<u>Grants of Plan Based Awards in Fiscal Year 2008</u>	<u>27</u>
<u>2008 Outstanding Equity Awards at Fiscal Year End</u>	<u>28</u>
<u>2008 Option Exercises and Stock Vested</u>	<u>29</u>
<u>2008 Pension Benefits</u>	<u>29</u>
<u>2008 Nonqualified Deferred Compensation</u>	<u>29</u>
<u>Potential Payments Upon Termination or a Change in Control</u>	<u>29</u>
<u>2008 Director Compensation</u>	<u>31</u>
<u>Director Compensation for Fiscal 2008</u>	<u>32</u>
<u>AUDIT COMMITTEE REPORT</u>	<u>32</u>
<u>PERFORMANCE GRAPH</u>	<u>36</u>
<u>STOCK OWNED BY AVI BIOPHARMA, INC. MANAGEMENT AND PRINCIPAL SHAREHOLDERS</u>	
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	<u>37</u>
<u>ELECTION OF AVI BIOPHARMA, INC. DIRECTORS (Proposal I)</u>	<u>39</u>
<u>INFORMATION AS TO NOMINEES AND CONTINUING DIRECTORS</u>	<u>40</u>
<u>RATIFICATION OF APPOINTMENT OF AVI BIOPHARMA INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Proposal II)</u>	<u>41</u>
<u>OTHER BUSINESS</u>	<u>41</u>
<u>SHAREHOLDER PROPOSALS AND SHAREHOLDER NOMINATIONS OF DIRECTORS</u>	<u>41</u>
<u>COST OF SOLICITATION</u>	<u>43</u>
<u>ADDITIONAL INFORMATION</u>	<u>43</u>

Table of Contents

AVI BIOPHARMA, INC.

4575 SW Research Way, Suite 200
Corvallis, Oregon 97333

**PROXY STATEMENT
for
ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 19, 2009**

General

This Proxy Statement is furnished to shareholders of AVI BioPharma, Inc. (the "Company" or "AVI") in connection with the solicitation by the Board of Directors of proxies from the shareholders of record of the Company's outstanding shares of Common Stock, \$0.0001 par value (the "Common Stock"), for use at the Company's Annual Meeting of Shareholders to be held on May 19, 2009, at 9:00 a.m. local time, at AVI BioPharma, Inc., 4575 SW Research Way, Corvallis, Oregon, and at any adjournments or postponements thereof (the "Annual Meeting").

At the Annual Meeting, shareholders will be asked to consider and vote upon proposals to (i) elect four members to Group II of the Board of Directors, each for a two-year term, (ii) ratify the appointment of KPMG LLP as independent registered public accounting firm for the Company for the year ending December 31, 2009, and (iii) transact such other business as may properly come before the meeting. This Proxy Statement, together with the enclosed proxy card, is first being mailed to the Company's shareholders on or about April 14, 2009.

Solicitation, Voting and Revocability of Proxies

The Board of Directors has fixed March 24, 2009, as the record date for the determination of the shareholders entitled to notice of and to vote at the Annual Meeting. Accordingly, only holders of record of shares of Common Stock at the close of business on such date will be entitled to notice of and to vote at the Annual Meeting, with each such share entitling its owner to one vote on all matters properly presented at the Annual Meeting. On the record date, there were approximately 15,598 beneficial owners of the 85,644,698 shares of Common Stock then outstanding. The presence, in person or by proxy, of a majority of the total number of outstanding shares of Common Stock entitled to vote at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting.

If the enclosed form of proxy is properly executed and returned in time to be voted at the Annual Meeting, the shares represented thereby will be voted in accordance with the instructions marked therein. **EXECUTED BUT UNMARKED PROXIES WILL BE VOTED FOR (i) THE ELECTION OF THE DIRECTORS NAMED IN THE PROXY AND (ii) RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2009.** The Board of Directors does not know of any matters other than those described in the Notice of Annual Meeting that are to come before the Annual Meeting. If any other matters are properly brought before the Annual Meeting, the persons named in the proxy will vote the shares represented by such proxy in their discretion upon such matters.

The presence of a shareholder at the Annual Meeting will not automatically revoke such shareholder's proxy. A shareholder may, however, revoke a proxy at any time prior to its exercise by (i) filing a written notice of revocation, (ii) delivering a duly executed proxy bearing a later date to, Secretary, AVI BioPharma, Inc., 4575 SW Research Way, Suite 200, Corvallis, Oregon 97333, or (iii) attending the Annual Meeting and voting in person. In order to be effective, all revocations or later-filed proxies must be delivered to the Company at the Corvallis, Oregon address not later than May 19, 2009, 8:00 a.m. local time. All valid, unrevoked proxies will be voted at the Annual Meeting.

Table of Contents

Under Oregon law, shareholders are not entitled to dissenter's rights with respect to any of the proposals set forth in this proxy statement.

AVI BIOPHARMA, INC. DIRECTORS AND EXECUTIVE OFFICERS

Executive Officers and Directors

The following table sets forth certain information with respect to the current directors and executive officers of AVI:

Name	Age	Position(6)
Leslie Hudson, Ph.D.(4)(6)	62	Chief Executive Officer, President and Director
J. David Boyle II	55	Senior Vice President, Chief Financial Officer, and Secretary
Patrick L. Iversen, Ph.D.	53	Senior Vice President of Strategic Alliances
Ryszard Kole, Ph.D.	62	Senior Vice President of Discovery Research and Development
Stephen B. Shrewsbury, M.D.	52	Chief Medical Officer and Senior Vice President of Preclinical, Clinical and Regulatory Affairs
Dwight D. Weller, Ph.D.	58	Senior Vice President of Chemistry and Manufacturing
Michael D. Casey(1)(3)	63	Chairman of the Board
John W. Fara, Ph.D.(2)(3)(5)	66	Director
K. Michael Forrest(1)	65	Director
William A. Goolsbee(1)(3)	55	Director
John C. Hodgman(2)	54	Director
Gil Price, M.D.(2)	53	Director
M. Kathleen Behrens, Ph.D.	56	Director
Christopher S. Henney, Ph.D., D.Sc.	68	Director

- (1) Member of the Compensation Committee.
- (2) Member of the Audit Committee.
- (3) Member of the Nominating and Corporate Governance Committee.
- (4) On February 8, 2008, K. Michael Forrest resigned as the Company's Interim Chief Executive Officer, and Leslie Hudson, Ph.D. became the Company's Chief Executive Officer.
- (5) John Fara, Ph.D. has decided not to stand for re-election as a director of the Company.
- (6) As of December 31, 2008, other than Leslie Hudson, Ph.D., all directors are independent under the independence standards applicable to the Company.

Leslie Hudson, Ph.D., has served as Chief Executive Officer and a director of AVI since February 8, 2008, and as President of AVI since September 18, 2008. Dr. Hudson served as the interim President and Chief Executive Officer of NABI Biopharmaceuticals from February 2007 to February 2008. Dr. Hudson served as Chief Executive Officer and President of DOV Pharmaceutical, Inc., a biopharmaceutical company, from June 2005 to July 2006 and served as Vice Provost for Strategic Initiatives at the University of Pennsylvania from 2003 to June 2005. From

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1995 to 2003 he served in senior positions at Pharmacia Corp., including Senior Vice President of Research & Exploratory Development, Senior Vice President of Emerging Technology & Commercial Development and General Manager & Group Vice President of Ophthalmology. From 1988 to 1994, he worked at Glaxo (now GlaxoSmithKline plc) in several senior research positions including vice president for discovery research. Dr. Hudson serves on the boards of directors of NABI Biopharmaceuticals and Hooper Holmes, Inc.

Table of Contents

J. David Boyle II, has served as Senior Vice President and Chief Financial Officer of AVI since August 18, 2008, and as the Company's Secretary since September 29, 2008. In the five years prior to his appointment as the Company's Senior Vice President and Chief Financial Officer, Mr. Boyle worked for both XOMA Ltd., a biopharmaceutical company in the field of therapeutic antibody discovery and development, and Polycom, Inc., a worldwide high technology communications company. Mr. Boyle served as Vice President, Finance and Chief Financial Officer of XOMA Ltd. from July 2005 to August 2008. Prior to his position as Chief Financial Officer, Mr. Boyle served as Vice President, Financial Operations of XOMA Ltd. from January 2005 to July 2005. Mr. Boyle joined XOMA Ltd. in January 2005 from Polycom, Inc. where he served from March 2002 to December 2004, most recently, as Vice President, Finance. Mr. Boyle also brings to the Company extensive global financial leadership experience in the pharmaceutical industry through previous senior leadership positions. Prior to his employment with Polycom, Inc., Mr. Boyle worked for Salix Pharmaceuticals, Ltd. in the US and for Ares Serono Group both in the US and Switzerland. Mr. Boyle holds a Bachelor of Arts degree from Catholic University.

Patrick L. Iversen, Ph.D., has served as Senior Vice President of Strategic Alliances since April 10, 2008. From 1997 until April 10, 2008, Dr. Iversen previously served as the Company's Senior Vice President of Research and Development. He also served as a director of AVI from 1997 through May 2005. From 1987 through 1997, Dr. Iversen was on staff at the University of Nebraska Medical Center, most recently as a Professor in the College of Medicine. Dr. Iversen, who has published extensively on antisense research and development, additionally served as a consultant to various pharmaceutical and biotechnology companies, including GLAXO Inc., Innovir Pharmaceuticals, Lynx Therapeutics, and Isis Pharmaceuticals, as well as to AVI. He is a former member of the Leukemia Society of America Board of Directors. Dr. Iversen holds a B.S. in Biology from Westminister College and a Ph.D. in Biochemical Pharmacology and Toxicology from the University of Utah, followed by post-doctoral work at the Eppley Institute for Research in Cancer and Allied Diseases. Current services activities include being a reviewer for the ONC-L and BST-S study sections of the National Institutes of Health.

Ryszard Kole, Ph.D., has served as Senior Vice President of Discovery Research since April 10, 2008. Prior to his appointment as Senior Vice President of Discovery Research, Dr. Kole had served as a consultant to the Company after the closing of the Company's acquisition of Ercole Biotech, Inc., a privately held Delaware corporation ("Ercole"), on March 20, 2008. Prior to his service as a consultant with the Company and Ercole's acquisition by the Company, Dr. Kole served as President, Chief Scientific Officer and a member of the Board of Directors of Ercole from the time he founded Ercole in 2001. He served as a compensated consultant to Ercole from September 2007 until its acquisition in March 2008. As a member of Ercole's senior management, Dr. Kole had primary responsibility for managing Ercole's internal and collaborative research activities. At the time of its acquisition, Ercole had six full-time employees and two part-time consultants, including Dr. Kole. In addition to his work with Ercole, Dr. Kole had also been employed by the University of North Carolina at Chapel Hill ("UNC") in the Department of Pharmacology as an Assistant Professor from 1983, Associate Professor from 1988 and as a Full Professor from 1996 until April 2008. Dr. Kole holds a Ph.D. in Natural Sciences from the Institute of Biochemistry and Biophysics, Polish Academy of Sciences in Warsaw, Poland.

Stephen B. Shrewsbury, M.D., has served as Chief Medical Officer and Senior Vice President of Preclinical, Clinical and Regulatory Affairs since January 26, 2009. In the five years prior to his appointment as the Company's Chief Medical Officer and Senior Vice President of Preclinical, Clinical and Regulatory Affairs, Dr. Shrewsbury worked as a consultant to the Pharmaceutical Industry (August 2008- January 2009); for Adamas Pharmaceuticals Inc., as Chief Medical Officer & Senior Vice President, Clinical Development, Medical and Regulatory Affairs (from March 2008 to August 2008) a pharmaceutical company in the field of development and commercialization of controlled release products, and MAP Pharmaceuticals Inc., as Chief Medical Officer, Formerly Vice President, Clinical

Table of Contents

and Regulatory Affairs (from February 2005 to March 2008) a pharmaceutical company, specializing in inhaled delivery of drugs. Prior to his employment with MAP Pharmaceuticals, Inc., Dr. Shrewsbury worked as Senior Director of Clinical Development of Chiron Corporation from July 2002 until February 2005. Prior to joining Chiron, Dr. Shrewsbury held several senior positions at GlaxoSmithKline both in the UK and U.S. from 1993 until 2002. Dr. Shrewsbury holds a Bachelor of Medicine and a Bachelor of Surgery degree from Liverpool, UK.

Dwight D. Weller, Ph.D., has served as Senior Vice President of Chemistry and Manufacturing of AVI since 1997, as Vice President of Research and Development of AVI from 1992 to 1997, and as a director of AVI from 1991 through May 2006. Dr. Weller received a B.S. in Chemistry from Lafayette College and a Ph.D. in Chemistry from the University of California at Berkeley, followed by postdoctoral work in Bio-Organic Chemistry at the University of Illinois.

Michael D. Casey has served as a director of AVI since May 2006 and was appointed the Chairman effective March 10, 2008. Since February 2002, Mr. Casey has been a self-employed consultant to the pharmaceutical industry. Previously, Mr. Casey served four years as President, Chief Executive Officer and Chairman of Matrix Pharmaceutical, Inc., a biopharmaceutical company, until Chiron Corporation acquired the company. Prior to joining Matrix, Mr. Casey was President of two divisions of Schein Pharmaceutical, Inc. from 1995 to 1997, and President and Chief Operating Officer of Genetic Therapy, Inc. from 1993 to 1995 until it was sold to Sandoz (Novartis). Mr. Casey also spent 25 years with Johnson & Johnson, including serving as Vice President of Sales and Marketing of Ortho Pharmaceutical Corporation and President of McNeil Pharmaceuticals. Mr. Casey is a director of Allos Therapeutics, Inc., Celgene Corp., and Durect Corporation.

John W. Fara, Ph.D., has served as a director of AVI since May 2000. Dr. Fara has decided not to stand for re-election as a director of AVI at the Company's 2009 Annual Meeting of shareholders. He has served as the President and Chief Executive Officer of DepoMed, Inc. a biopharmaceutical company, between 1996 and 2007, and as its Chairman of the Board between April 2000 and 2007. Between 1990 and 1996, he served as President and Chief Executive Officer of Anergis, Inc., a biotechnology company, and previously was President of Prototek, Inc., an early stage pharmaceutical development company. He currently serves as a director and member of the Nominating and Governance Committee of Iomed, Inc. Dr. Fara holds a B.S. from the University of Wisconsin and a Ph.D. from the University of California at Los Angeles.

K. Michael Forrest has served as a director of AVI since March 2005. On March 27, 2007, Mr. Forrest was elected Interim Chief Executive Officer and he served in that position until February 8, 2008. Mr. Forrest has more than 35 years of biotech and large pharmaceutical experience in executive management, research oversight, clinical and product development, strategic planning, mergers and acquisitions, business development, marketing and sales positions in U.S. and international markets. Mr. Forrest is currently chairman of Apex Bioventures, LLC, a private investment and consulting company focusing on emerging companies in the healthcare sector. Mr. Forrest served as the president, chief executive officer, and a director of Cellegy Pharmaceuticals, Inc., a biopharmaceutical company, from 1996 to 2005. He previously served as president and chief executive officer of Mercator Genetics, a private biotechnology company, and as president and chief executive officer of Transkaryotic Therapies, Inc., a public biotechnology company. Previously, Mr. Forrest occupied senior line management and marketing positions with Pfizer and Lederle. He currently serves as Chairman of Tekimira Pharmaceuticals, a public company developing proprietary drugs and drug delivery systems for the treatment of cancer and other conditions using siRNA. Mr. Forrest holds a B.S. in Business Administration from Georgetown University, with a concentration in marketing, finance and economics.

William A. Goolsbee has served as a director of AVI since October 30, 2007. With a 30-year career in the medical device and biopharmaceutical industries, Mr. Goolsbee was founder, chairman and Chief Executive Officer of Horizon Medical Inc. from 1987 until its acquisition by a unit of UBS Private

Table of Contents

Equity in 2002. Mr. Goolsbee was a founding director of ImmunoTherapy Corporation in 1993, becoming chairman of the board in 1995, a position he held until overseeing the successful acquisition of the company by AVI in 1998. Experience prior to 1987 includes a series of increasingly responsible executive positions with CooperVision Inc. and Cooper Laboratories Inc. Mr. Goolsbee holds a Bachelor of Arts degree from the University of California at Santa Barbara. Mr. Goolsbee serves as chairman of privately held BMG Pharma LLC, a product development and licensing company.

John C. Hodgman has served as a director of AVI since March 2004. He has served as the Senior Vice President of Finance, Chief Financial Officer of InterMune, Inc., a biotechnology company, since August 2006. He served as the Chairman of Cygnus, Inc., a biopharmaceutical company, from 1999 to 2008 and President and Chief Executive Officer of that company between 1998 and 2006. Mr. Hodgman joined Cygnus in 1994 as Vice President of Finance and Chief Financial Officer and between 1995 and 1998, he also served as President of Cygnus Diagnostics. He was President and Chief Executive Officer of Aerogen, Inc., a biopharmaceutical company, from June 2005 to October 2005 when the company was sold to Nektar, Inc. Mr. Hodgman also serves on the boards of Immersion Corporation. Mr. Hodgman holds a Bachelor of Science degree from Brigham Young University and an M.B.A. from the University of Utah. Mr. Hodgman serves on the Company's Audit Committee as its Chairman and financial expert.

Gil Price has served as a director of AVI since October 30, 2007. Dr. Price is a clinical physician trained in internal medicine with a long-standing interest in drug development, adverse drug reactions, drug utilization and regulation. Since 2002, he has been the Chief Executive Officer and Chief Medical Officer of Drug Safety Solutions. From 1997 to 2002, Dr. Price was the director of clinical development for oncology at MedImmune Inc. Prior to joining MedImmune, Dr. Price worked in the CRO sector. Dr. Price began his pharmaceutical career at GlaxoSmithKline Inc., where he worked for nearly nine years on both the commercial and research sides of the company. Dr. Price is a member of the American Medical Association, the Academy of Pharmaceutical Physicians and a past member of the American Society for Microbiology.

M. Kathleen Behrens, Ph.D., has served as a director of AVI since March 31, 2009. Dr. Behrens' career spans the financial services and biotechnology sectors, as well as healthcare policy. Dr. Behrens served as a member of the President's Council of Advisors on Science and Technology (PCAST) from 2001 to early 2009 and she was Chair of PCAST's Subcommittee on Personalized Medicine. She has served as a public-market biotechnology securities analyst as well as venture capitalist focusing on healthcare, technology and related investments. She was instrumental in the founding of several biotechnology companies including Protein Design Labs, Inc. and COR Therapeutics, Inc., and more recently was a Director of Abgenix, Inc., which was acquired by Amgen in 2006. She worked for Robertson Stephens & Co. from 1983 through 1996, serving as a general partner and managing director. Dr. Behrens continued in her capacity as a General Partner for selected venture funds for RS Investments from 1996 through today. From 1997 to 2005, she was a director of the Board on Science, Technology and Economic Policy (STEP) for the National Research Council, and from 1993 to 2000 she was a director, President, Chair and Past Chair of the National Venture Capital Association. Dr. Behrens holds a Ph.D. in Microbiology from the University of California, Davis.

Christopher S. Henney, Ph.D., D.Sc., has served as a director of AVI since March 31, 2009. Dr. Henney co-founded three major publicly held U.S. biotechnology companies, Immunex Corporation, ICOS Corporation and Dendreon Corporation, and held executive positions at each company. Since March 2005 Dr. Henney has served as a director of Cyclacel Pharmaceuticals, Inc., formerly Xcyte Therapies, Inc., and is currently its Vice Chairman. From 1995 to January 2003, Dr. Henney was Chairman and Chief Executive Officer of Dendreon Corporation. Dr. Henney also serves as Chairman of Oncothyreon Inc. Dr. Henney received a Ph.D. in experimental pathology from the University of Birmingham and a D.Sc. from the same university for contributions to the field of immunology.

Table of Contents

Board of Directors Meetings and Committees

During 2008, AVI's Board of Directors held eight meetings. Each incumbent director attended all meetings of the Board of Directors and all meetings of the committees of the Board of Directors on which he served, except that Mr. Forrest did not attend one of the eight meetings of the Board.

The Board of Directors has a separately designated standing Audit Committee, established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit Committee conducted three meetings during the fiscal year ended December 31, 2008. As of the date hereof, the members of the Audit Committee are Mr. John C. Hodgman, Dr. John W. Fara, and Dr. Gil Price. Mr. Hodgman serves as the Audit Committee's Chairman and the Audit Committee's designated financial expert. All members of the Audit Committee are independent directors, as defined under applicable listing requirements of the Nasdaq Stock Market. The Audit Committee oversees the annual and quarterly financial reporting process, retains and replaces the Company's independent auditors, discusses with the auditors their independence from management and reviews the scope of the independent annual audit. The Audit Committee operates under an amended and restated written charter adopted by the Board of Directors on March 30, 2004, a copy of which is posted on the Company's website (www.avibio.com). The Audit Committee reviewed and reassessed the charter for effectiveness during 2008.

The Board of Directors also has a standing Compensation Committee, which reviews and makes recommendations to the full Board of Directors regarding compensation for the Company's executive officers and directors and administers the Company's stock option and employee stock purchase plans. During the fiscal year ended December 31, 2008, the Compensation Committee held seven meetings. As of December 31, 2008, the Compensation Committee was composed of three directors, namely, directors Michael Casey, K. Michael Forrest and William A. Goolsbee. John C. Hodgman and former director Jack L. Bowman served on the Compensation Committee during 2008. As of March 27, 2007, in connection with his appointment as the Company's Interim Chief Executive Officer, Mr. Forrest resigned as a member of the Compensation Committee and Mr. Casey was appointed as his replacement. On March 10, 2008, Mr. Bowman resigned as a member of our Board of Directors, which included his resignation from the Compensation Committee. On March 10, 2008, Mr. Casey was appointed as Chairman of the Board of Directors and Mr. Forrest, having completed his tenure as the Company's Interim Chief Executive Officer, was again appointed to the Compensation Committee. Mr. Forrest joined Mr. Casey and Mr. Hodgman on the Compensation Committee as of such date. At the same time, Mr. Hodgman was also appointed interim Chair of the Compensation Committee. Effective March 25, 2008, Mr. Goolsbee replaced Mr. Hodgman as a member of the Compensation Committee, and Mr. Casey was appointed Chairman of the Compensation Committee. As of the date hereof, the members of the Compensation Committee are Mr. Casey (Chair), Mr. Forrest, and Mr. Goolsbee. A copy of the Compensation Committee charter is posted on the Company's website (www.avibio.com). Although Mr. Forrest acted as the Company's Interim Chief Executive Officer until February 8, 2008, under applicable listing requirements of the NASDAQ Stock Market he may be considered independent upon resignation if the Board of Directors concludes that such former employment and any compensation received would not interfere with the director's exercise of independent judgment in carrying out the responsibilities as director. The Board of Directors concluded that Mr. Forrest was independent in accordance with these applicable listing requirements.

The Board of Directors also has a standing Nominating and Corporate Governance Committee, which is responsible for considering and making recommendations to the Board of Directors concerning the appropriate size, functions and needs of the Board of Directors and to ensure compliance with the Company's Code of Ethics and other corporate governance policies. During the fiscal year ended December 31, 2008, the members of the Nominating and Corporate Governance Committee were directors William A. Goolsbee, John W. Fara, and Michael D. Casey and former director Jack L. Bowman. On March 10, 2008, Mr. Bowman resigned as a member of our Board of

Table of Contents

Directors, which included his resignation from the Nominating and Corporate Governance Committee. As of the date hereof, the members of the Nominating and Corporate Governance Committee are Mr. Goolsbee (Chair), Mr. Casey, and Dr. Fara. The Nominating and Corporate Governance Committee operates under an amended and restated written charter adopted by the Board of Directors on February 16, 2006, a copy of which is posted on the Company's website (www.avibio.com).

The members of the Audit, Nominating and Corporate Governance, and Compensation Committees are independent as defined under applicable listing requirements of the Nasdaq Stock Market, and all members of the Audit Committee have the requisite financial experience.

Although we do not have a formal policy regarding attendance by members of the Board of Directors at our annual meetings of shareholders, directors are encouraged to attend the annual meetings. All directors attended the Company's 2008 annual meeting of shareholders.

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics (the "Code"). The Code applies to all directors and employees, including all officers, managers and supervisors, and is intended to better ensure full, fair, accurate, timely and understandable disclosures in our public documents and reports, compliance with applicable laws, prompt internal reporting of violations of these standards and accountability for adherence to standards. The Company has contracted with Ethicspoint to provide a method for employees and others to report violations of the Code anonymously. A copy of the Code is posted on the Company's website (www.avibio.com).

Communications to the Board of Directors

The Board of Directors welcomes and encourages shareholders to share their thoughts regarding the Company. While the Board of Directors encourages such communication, for a variety of reasons, including compliance with securities laws, fiduciary duties of the directors, and good business practices relating to corporate communications, the Company's preference is that shareholders communicate with the Board of Directors in compliance with its communications policy. The Company's communications policy, as adopted by the Board of Directors, provides that all communications should first be directed to the Company's Investor Relations Department. Investor Relations will then distribute a copy of the communication to the Chairman of the Board, the Chairman of the Audit Committee and the Company's outside counsel. Based on the input and decision of these persons, along with the entire Board of Directors if it is deemed necessary, the Company, through its Investor Relations Department, will respond to the communication.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires AVI's directors and officers, and persons who own more than ten percent (10%) of a registered class of AVI's equity securities, to file initial reports of ownership and report of changes in ownership with the Commission. Such persons also are required to furnish AVI with copies of all Section 16(a) reports they file.

Based solely on its review of the copies of such reports received by it with respect to fiscal year 2008, or written representations from certain reporting persons, AVI believes that all filing requirements applicable to its directors, officers and persons who own more than ten percent (10%) of a registered class of AVI's equity securities have been complied with for fiscal 2008, except that one Form 4 was not timely filed by Mr. George Haywood.

Compensation Committee Interlocks and Insider Participation

As of December 31, 2008, the Compensation Committee was composed of three directors, namely, directors Michael Casey, K. Michael Forrest and William A. Goolsbee. John C. Hodgman and former

Table of Contents

director Jack L. Bowman served on the Compensation Committee during 2008. As of March 27, 2007, in connection with his appointment as the Company's Interim Chief Executive Officer, Mr. Forrest resigned as a member of the Compensation Committee and Mr. Casey was appointed as his replacement. On March 10, 2008, Mr. Bowman resigned as a member of our Board of Directors, which included his resignation from the Compensation Committee. On March 10, 2008, Mr. Casey was appointed as Chairman of the Board of Directors and Mr. Forrest, having completed his tenure as the Company's Interim Chief Executive Officer, was again appointed to the Compensation Committee. Mr. Forrest joined Mr. Casey and Mr. Hodgman on the Compensation Committee as of such date. At the same time, Mr. Hodgman was also appointed interim Chair of the Compensation Committee. Effective March 25, 2008, Mr. Goolsbee replaced Mr. Hodgman as a member of the Compensation Committee, and Mr. Casey was appointed Chairman of the Compensation Committee. There were no employee directors on the Compensation Committee and no interlocks.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

The Company is a biopharmaceutical company developing products in the fast growing field of RNA therapeutics. Current applications of the Company's technology platform include genetic diseases (Duchenne muscular dystrophy), infectious diseases (Ebola and Marburg viruses), cardiovascular disease (restenosis) and other early discovery targets. We operate in a highly complex business environment and believe that a competitive compensation program is an important tool to help attract, retain and reward the talented employees we need to achieve our mission and deliver value to our shareholders.

Throughout this section of the proxy statement, the individuals who served as the Company's Chief Executive Officer and Chief Financial Officer during fiscal year 2008, as well as the other individuals included in the Summary Compensation Table included in this proxy statement, are referred to as the "named executive officers."

Overview

In 2008, the Company underwent almost a complete turnover in its management team. One result of this turnover is that certain elements of the compensation package for many of the named executive officers were established as a result of arms-length negotiations between the Company and the individuals the Company was recruiting to join the Company at its facility in Corvallis, Oregon. Thus, in most cases, the base compensation and benefits packages for most of our named executive officers reflect market forces rather than benchmarking and other tools often used by compensation consultants.

Other noteworthy aspects of the Company's compensation program include:

Except to the extent that an individual employment agreement requires otherwise, base salaries for all named executives have not been increased in 2009 compared to 2008;

The named executive officers, as a group, achieved approximately 65% of the performance goals set for them in 2008;

The 2008 bonuses, which were paid in 2009 and represent approximately 20% of the total compensation paid to the named executive officers, were paid in the form of stock rather than cash in order to better preserve the Company's cash resources;

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Table of Contents

The Compensation Committee and the Board has established performance goals for the named executive officers for 2009. If achieved, these bonuses would represent approximately 23% of the anticipated total compensation in 2009 for the named executive officers.

The Committee and the Board believe that the performance goals for 2009, like those for 2008, provide appropriate incentives to the named executive officers that align their personal financial interests with the short and long term goals of the Company without promoting inappropriate risk-taking behavior; and

The Committee believes a mixture of base cash compensation, performance-based bonuses, equity incentive compensation in the form of options and restricted shares and a fair package of health care and similar benefits is appropriate for the Company and is in the best interests of the Company's shareholders.

Significant Management Changes in Fiscal Year 2008 and Early 2009

In 2008 and early 2009, the Company underwent several senior management changes, including:

February 8, 2008: the Board of Directors hired Leslie Hudson, Ph.D. as the Company's Chief Executive Officer and as a member of the Board of Directors. The Board of Directors subsequently appointed Dr. Hudson President of the Company upon the departure of Alan J. Timmins;

April 10, 2008: the Company hired Dr. Ryszard Kole as its Senior Vice President of Discovery Research;

April 10, 2008: Dr. Patrick Iversen became the Company's Senior Vice President of Strategic Alliances;

August 1, 2008: Shirley Leow was hired as Vice President of Clinical Operations and Project Management;

August 18, 2008: J. David Boyle II was hired as the Company's Senior Vice President and Chief Financial Officer, replacing Mark Webber, whose relationship with the Company was terminated on November 30, 2008;

September 18, 2008: the Company's relationship with Alan J. Timmins as its President and Chief Operating Officer was terminated;

Effective January 9, 2009, pursuant to an agreement reached in October 2008, the relationship between the Company and Dr. Peter O'Hanley, the Company's Senior Vice President for Clinical Development and Regulatory Affairs, was terminated;

January 26, 2009: the Company hired Stephen B. Shrewsbury as the Company's Chief Medical Officer and Senior Vice President of Preclinical, Clinical and Regulatory Affairs; and

January 30, 2009: the relationship between the Company and Ray Cummings, Vice President of Business Development, was terminated.

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As a result of these changes, of the executive officers in office as of December 31, 2007, only one, Dr. Dwight Weller, Senior Vice President of Chemistry and Manufacturing, remained in his position, and only two executive officers, Dr. Weller and Dr. Iversen, remain with the Company as of the date of this proxy.

Table of Contents

The Compensation Committee

The Company's executive compensation program is administered by the Company's Compensation Committee. As of December 31, 2008, the Compensation Committee was composed of three directors: Mr. Forrest, Mr. Goolsbee, and Mr. Casey (Chair). During 2008, all members of the Compensation Committee were "independent" for purposes of applicable securities and regulatory requirements. Although Mr. Forrest acted as the Company's Interim Chief Executive Officer until February 8, 2008, under applicable listing requirements of the NASDAQ Stock Market he may be considered independent upon resignation if the Board of Directors concludes that such former employment and any compensation received would not interfere with the director's exercise of independent judgment in carrying out the responsibilities as director. The Board of Directors concluded that Mr. Forrest was independent in accordance with these applicable listing requirements. Additionally, the Board felt that his presence on, and participation in the discussion of, the Committee was in the best interests of the Company due to his prior experience with the management of the Company and his role as a director in public and private companies.

The Compensation Committee is responsible for reviewing, assessing, and approving all elements of compensation for our named executive officers. More specifically, the Compensation Committee is directly responsible for establishing annual and long-term performance goals and objectives for our named executive officers. This responsibility includes, among other things: (a) evaluating the performance of our Chief Executive Officer and other executives as determined by the Compensation Committee in light of the approved performance goals and objectives; (b) setting the compensation of the Chief Executive Officer and other executives as determined by the Compensation Committee based upon the evaluation of the performance of the Chief Executive Officer and the other executives, respectively; (c) making recommendations to the Board of Directors with respect to new cash-based incentive compensation plans and equity-based compensation plans; and (d) preparing an annual report of the Compensation Committee.

The Compensation Committee has independent authority to make compensation decisions for our named executive officers. The Compensation Committee seeks ratification from the Company's Board of Directors of its decisions regarding the compensation of the Chief Executive Officer and sets the compensation for the other named executive officers on its own.

The Company did not employ a compensation consultant to assist in the evaluation of the compensation of the Company's executive officers in 2009. In early 2008, however, the Company did retain the services of a compensation consultant to assist the Committee in its evaluation of executive compensation at that time. The Compensation Committee has the authority to approve the fees and other retention terms with respect to such a compensation consultant. The Compensation Committee also has the authority, as necessary and appropriate, to consult with other outside advisors to assist in its duties to the Company.

Compensation Philosophy and Objectives

The purpose of the Company's executive compensation program is and has been to attract, motivate, and retain key executive employees in order to promote the success of the Company. The Company seeks, and has sought, to reward and to provide incentives to named executive officers for their performance. Over the past few years, the Company has seen significantly increased demand for executives with industry-specific skills and experience and a highly competitive market for such executives. Additionally, given the small size of the Company relative to certain other members of our industry group, its location away from the major biotechnology research centers, and throughout 2008 the fact that there was a significant doubt about the Company's ability to secure the funding needed to continue our research and development programs, in 2008 we faced significant challenges in recruiting senior members of our management team. Therefore, in 2008 (and we expect in 2009 and beyond) the attraction and retention of executives was, and will be, one of the key purposes of the Company's executive compensation program.

Table of Contents

The Company's executive compensation program also includes a pay-for-performance component. In that respect, the compensation program is designed to reward the named executive officers for meeting specific goals that are established and reviewed by the Compensation Committee for each named executive officer and for the Company as a whole. In 2008, the Committee, Board and the Chief Executive Officer agreed and set performance goals for each named executive officer and the Company as a whole for 2008. Following the completion of such fiscal year, the Chief Executive Officer and the Compensation Committee assessed how each named executive officer has performed with respect to these goals. The Compensation Committee made an independent assessment with respect to the Chief Executive Officer's performance. The Compensation Committee has established similar goals for 2009.

The at-risk component of the compensation package for each named executive officer, which includes a targeted cash bonus and stock options/restricted stock, is determined in large part on the basis of how that named executive officer performed in meeting his or her goals. Compensation decisions are also based on market factors that require the Company to remain competitive in its compensation package in order to attract and retain qualified individuals.

In addition to the foregoing, the following executive compensation principles guided the Compensation Committee during 2008 in fulfilling its roles and responsibilities:

Compensation levels and opportunities should be sufficiently competitive to facilitate recruitment and retention of experienced executives in the Company's highly competitive talent market;

Compensation should reinforce the Company's business strategy by integrating and communicating key metrics and operational performance objectives and by emphasizing incentives in the total compensation mix;

Compensation programs should align executives' long-term financial interests with those of the shareholders by providing equity-based incentives without incentivizing the executives to take inappropriate risks to the Company in order to enhance their individual compensation;

Compensation programs should be flexible, giving the Compensation Committee and our Board of Directors discretion to make adjustments on an as-needed basis;

Similarly situated executives should be compensated similarly; and

Compensation should be transparent and easily understandable to both our executives and our shareholders.

Role of Executive Officers in Compensation Decisions

Our Chief Executive Officer plays a pivotal role in determining executive compensation. No less than annually, the Company's Chief Executive Officer assesses the performance of the named executive officers. He then recommends to the Compensation Committee a base salary, performance-based cash bonus, and a grant of stock options for each named executive officer based on that assessment. The Compensation Committee considers the information provided by the Chief Executive Officer, together with other information available to the Compensation Committee and determines the compensation for each named executive officer other than the Chief Executive Officer. With respect to the compensation of our Chief Executive Officer, the Compensation Committee meets without the Chief Executive Officer to discuss its recommendation and makes a recommendation to the full Board of Directors.

Use of Compensation Consultants and Reports

In establishing compensation for 2009, the Compensation Committee did not retain a compensation consultant. As noted above, however, in early 2008, the Company commissioned Radford, the company that prepares the Radford Survey, to prepare an executive compensation and equity program assessment specific to the Company. In March 2008, Radford presented its assessment

Table of Contents

to the Compensation Committee. The Compensation Committee found the 2008 survey results to still provide valuable guidance and an appropriate benchmark.

Moreover, as noted above, because of the significant turnover in the management team in 2008 and early 2009, compensation for the named executive officers was primarily a function of market forces and negotiations between the Company and the individuals being recruited to fill the various named executive officer positions.

Setting Executive Compensation

As a general proposition, in setting compensation for the named executive officers, other than the Chief Executive Officer, and in developing its recommendations to the Board of Directors regarding compensation for the Chief Executive Officer, the Compensation Committee considers a number of factors, including analyses of compensation in similarly-sized companies in the biopharmaceutical industry, analyses of compensation levels in similar companies in the Company's local geographic area, the satisfaction of (or failure to satisfy) previously-developed performance measurements for the named executive officer and the Company, and the total vested and unvested equity grants owned by the executive. The Company competes for executive talent across a broad range of business segments.

The Compensation Committee believes it is important when making its compensation-related decisions to be informed as to current practices of similarly situated companies in the biotechnology industry. In addition to benchmarking studies, such as the Radford Survey, the Compensation Committee has historically taken into account input from other sources, including input from members of the Compensation Committee based on their roles as executive officers and directors of other public companies, as well as other members of the Board of Directors and publicly available data relating to the compensation practices and policies of other companies within and outside of our industry, including non-biotechnology companies in the same geographic area of the Company.

The Compensation Committee believes that the total compensation package provided to the Company's named executive officers, combining both short-term and long-term incentives, some of which are at risk based on individual and Company performance, is competitive without being excessive and is at an appropriate level to assure the retention and motivation of this highly skilled and experienced segment of the Company's workforce, and at the same time would be attractive to any additional talent that might be needed in the changing workplace without creating incentives for inappropriate risk-taking by the named executive officers that might be in their own self-interests, but would not be in the best long and short term interests of the Company's shareholders.

Performance Factors in 2008

The Compensation Committee, together with the Chief Executive Officer and full Board of Directors, establishes performance criteria for the named executive officers, both in terms of individual performance and the performance of the Company as a whole, and generally assigns a weight to the performance goals. In 2008, the primary factors that drove the Compensation Committee's executive compensation decisions for fiscal year 2008 were the following corporate goals, with a prescribed weighting assigned to each:

Develop and execute upon a plan to successfully integrate Ercole Biotech into the Company's processes and structure;

Advance the Company's clinical programs in DMD, Ebola and Marburg infectious disease programs as well as other initiatives to achieve clinical and regulatory milestones;

Raise additional capital to allow the Company to continue with its research and development programs through certain clinical and regulatory milestones;

Develop and advance the Company's research and preclinical development portfolio to achieve certain milestones; and

Table of Contents

Develop and execute upon a restructuring plan involving personnel and other operational and strategic steps and milestones, including building the management team as noted previously.

Each named executive officer, other than Dr. Hudson, then was given certain individual performance goals/milestones that reflected the corporate goals and their position and responsibilities.

The Compensation Committee and the Board determined that approximately 67.5% of these corporate goals were satisfied. Dr. Hudson's entire performance bonus and 70% of the performance bonus of each other named executive officer was based on this achievement. The remaining portion of the performance bonus for the other named executive officers was based on individual goals for each such officer.

With respect to Mr. Forrest, the Company's Interim Chief Executive Officer until February 8, 2008, the primary goal established by the Compensation Committee was his continuing operation of the Company during the search for a new Chief Executive Officer and in the recruitment of a new Chief Executive Officer. Given the interim nature of his tenure as the Chief Executive Officer, his compensation was not heavily performance-based.

Determining the Total Mix of Compensation

Our compensation-setting process consists of establishing a targeted overall compensation for each executive and then allocating that compensation between base salary and incentive compensation (annual performance-based cash bonuses and equity incentive awards), based appropriately on publicly available industry and salary survey data. The Compensation Committee does not have a pre-established policy for allocating total compensation between cash and non-cash compensation, between long-term and currently paid-out compensation, or between fixed and variable compensation. Rather, based on the competitive market assessments and the Compensation Committee's review of existing outstanding equity incentives on an individual named executive officer basis, the Compensation Committee determines the appropriate level and mix of total compensation, keeping in mind the Company's compensation philosophy.

The total amount and mix of compensation payable to our named executive officers is premised upon, among other items, the degree to which the executive has a role in determining the strategic direction of the Company, the mix of compensation payable to executives in similar roles by companies of a similar size, geographic location, and industry, and the quantity and value of unvested equity awards held by each named executive officer and the vesting date of such awards. As one of the Company's primary focuses is on the retention of its executives, the Company seeks to ensure its named executive officers receive a base salary reflective of the Company's size and competitive marketplace.

During its evaluation of the appropriate mix of compensation, the Compensation Committee typically determines what portion of each executive's compensation will be "at risk," with the at risk portion increasing as the Company gives executives greater levels of responsibility. As the Company believes that many of its named executive officers could command higher salaries in similar roles with larger companies, including with the Company's competitors, the Company's combined cash-based and equity-based bonuses have historically been large relative to base salaries, with the goal of ensuring compensation serves the dual purpose of retention and awarding exceptional performance.

Analysis of Executive Compensation Components

For the fiscal year ended December 31, 2008, the principal components of compensation for named executive officers were identical to the components in the prior fiscal year, and included:

Base salary;

Performance-based cash bonuses;

Equity Incentive Plan;